



Affordability Crisis Worsens: Home Ownership Costs Rise to 47.5%

Description

Inventory shortages in the housing market triggered bidding wars and drove prices to unprecedented levels this year. The situation is worrisome to homebuyers if the trend continues in 2022. Robert Hogue, an economist at **Royal Bank of Canada**, reports that aggregate homeownership costs in Q3 2021 are already 47.5% of median household income.

According to Hogue, it's the worst deterioration in 31 years. The imbalance between supply and demand must correct next year. Otherwise, costs like mortgage payments, property taxes, and utilities will increase along with it. Hogue's report presents a grim outlook for buyers, given that the Bank of Canada will begin raising interest rates.

Economists say the hike could be earlier than the middle quarters of 2022. Based on RBC's estimate, affordability could rise further by two to 3.5 points due to higher interest rates. Hogue adds, "A potentially significant deterioration in affordability could squeeze many buyers out of the [housing market](#)."

Is renting a better option than buying or obtaining a mortgage with the worsening [affordability crisis](#)? Real estate investors must also decide on whether to purchase investment properties or invest in real estate investment trusts (REITs) instead.

REITs like **Morguard North American Residential** ([TSX:MRG.UN](#)) and **Killam Apartment** ([TSX:KMP.UN](#)) are alternative investment options during a frothy housing market. Both are established residential REITs in Canada offering decent dividend yields. Would-be investors will earn recurring [income streams](#) like an actual landlord.

Best-in-class multi-family residential owner

Killam is a \$2.53 billion growth-oriented REIT which owns and operates apartments and manufactured home communities (MHCs). About 88% of the portfolio are apartments, while MHCs (7%) and commercial properties (5%) comprise the rest. According to management, Killam is well-positioned for long-term success.

The apartment portfolio is its competitive advantage because it's of the highest quality and youngest. About 36% of Killam's net operating income (NOI) comes from apartments built in the last 10 years. Expansion for portfolio growth is ongoing through accretive acquisitions.

In the nine months ended September 30, 2021, property revenue and NOI growths were 9.8% and 10.6% versus the same period in 2020. Killam's net income was \$210.72 million, a 116.2% year-over-year increase. The share price is \$23.02 (+38.44% year-to-date), while the dividend yield is a decent 3.03%.

Multi-suite residential rental properties

Morguard owns a diversified portfolio of multi-suite residential rental properties not only in Canada but also in the U.S. The primary objectives of this \$674.45 million REIT are to generate stable, growing cash distributions and enhance the value of its portfolio.

Management has been successful thus far, given the portfolio's growth since the REIT went public in 2012. As of September 30, 2021, Morguard has 27 and 16 properties in the U.S. and Canada, respectively. The occupancy rate in the former is 96.1%, while the latter boasts 92.7%.

In the first three quarters of 2021, Morguard experienced declines in rental revenue (2.7%) and NOI (7.85%) compared to the same period in 2020 due to higher vacancy and foreign exchange fluctuations. Nevertheless, the real estate stock is up 14.11% year to date. At \$17.66 per share, the dividend yield is 3.96%.

Dwindling supply

Real estate experts anticipate higher prices next year because supply continues to trend downward. Thus, homebuyers should evaluate their options carefully as the affordability crisis in 2022 could be worse than today.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:KMP.UN (Killam Apartment REIT)
2. TSX:MRG.UN (Morguard North American Residential Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. cliew
2. gsmiley

Category

1. Dividend Stocks
2. Investing

Date

2025/08/19

Date Created

2021/12/30

Author

cliew

default watermark

default watermark